

May 11, 2001

TO: Senator Snyder, Chair
Senator McDonald
Representative Dunshee
Representative Cairnes
Fred Kiga, Director, Department of Revenue
Marty Brown, Director, Office of Financial Management

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: May 10, 2001 REVENUE COLLECTION REPORT

General Fund collections were \$4.5 million below the estimate in the April 11 - May 10 period. Cumulatively, collections are now \$14.2 million less than expected for the two months since the March forecast. Revenue Act (sales, B&O, use and public utility) taxes were the primary source of the shortfall for the month as well as cumulatively. Stronger than expected real estate excise and estate tax payments offset part of the Revenue Act shortfall. Also, April's Lottery transfers were again a little stronger than expected this month offsetting some of the weakness in tax payments. The shortfall in Revenue Act collections suggest that the economy has indeed slowed in the first quarter of 2001. Although economic and revenue growth was expected to slow, the deceleration has been faster than expected. The economy is still expected to avoid a recession and major revenue losses due to aggressive action by the FED. However, a quick turn-a-round is not expected and growth may continue to be weak in the near term.

Revenue Act collections were \$17.3 million below the estimate for the month. This follows last month's \$8.9 million shortfall. Collections this period primarily reflect March 2001 business activity of monthly taxpayers and the first quarter activity of quarterly filers. Based on the growth of Revenue Act tax payments economic activity has been rapidly decelerating. Growth has slowed from 5.2 percent in the fourth quarter of 2000 to 2.7 percent in the first quarter of 2001. Growth in the first quarter was as high as it was only because of a very strong January. Tax revenue based on January activity was up a very strong 8.4 percent. Revenue Act growth has weakened considerably in the last two months. Revenue Act tax receipts this period were only 0.3 percent above the year-ago level; last month receipts increased only 0.5 percent. Weak first quarter revenue growth reflects the slowing economy both at the national and state level. Job losses are mounting with the U.S. unemployment rate rising from 4.0 percent in December to 4.5 percent in April. The Washington unemployment rate has risen even faster from 5.0 percent in December to 5.7 percent in March.

Preliminary data on taxes paid during the April 11 - May 10 collection period indicates weakness pretty much across-the-board. The retailing, construction, wholesaling and finance, insurance and real estate sectors all reported declines from a year-ago. Within the retailing sector, the furniture and household equipment sector reported a large, double-digit decline, while the auto sector was down about 4 percent. There were some bright spots in retailing. The general merchandise sector as well as eating and drinking places reported solid single-digit growth in tax payments. Outside retailing, the manufacturing sector was by far the strongest sector, reporting more than a 20 percent increase in payments. The service and transportation, communications and utilities sectors also reported increases in tax payments this month.

Non Revenue Act General Fund taxes collected by the Department of Revenue were \$11.9 million above the forecast in April. All major revenue sources in this category were higher this month. The largest contributors were real estate excise (\$8.3) and the estate tax (\$1.6). Cumulatively, Non Revenue Act sources are \$9.4 million more than expected, with the real estate excise tax and the estate tax again accounting for most of it.

Real estate excise tax activity in March (reflecting payments to the state in April) surged. Statewide taxable real estate excise activity was up 25.4 percent from a year-ago, the largest monthly increase since July 1998. The increase was due to higher values. The number of transactions declined 1.5 percent. In addition, most of the increase was concentrated in a few counties, including Pierce (up 101% from a year-ago) and several smaller counties that experienced increases of between 120 percent to more than a 1,000 percent. Most of the increase in these counties has been traced to a few unusually large transactions. Although these transactions result in real tax revenue, they are largely unrelated to current economic conditions and do not indicate a significant turn-a-round in real estate activity. Excluding counties with extraordinary transactions, activity was up 8.0 percent statewide. While this is a healthy increase it comes after 12.4 percent decline last month. Although lower interest rates are expected to lead to an improving real estate market, any improvement is likely to come more gradually than is implied by this month's strong showing.

Other agencies' collections were \$1.0 million above the forecast in April. Department of Licensing General Fund collections were \$0.2 million below the estimate and lottery transfers were \$1.2 million higher than expected. Cumulative General Fund receipts reported by the Department of Licensing are \$0.1 million below expectations. Lottery' General Fund transfers are \$2.7 million higher than the forecast cumulatively since the March forecast.

The attached Table 1 provides a comparison of collections with the February forecast for the April 11 - May 10, 2001 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

TABLE 1
Revenue Collection Report
May 10, 2001 Collections Compared to the March 2001 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
April 11 - May 10, 2001				
Department of Revenue-Total	\$891,020	\$885,596	(\$5,425)	-0.6%
Revenue Act** (1)	781,299	763,952	(17,347)	-2.2%
Non-Revenue Act(2)	109,721	121,643	11,922	10.9%
Liquor Sales/Liter	6,830	7,305	474	6.9%
Cigarette	5,229	5,520	291	5.6%
Property (State School Levy)	44,179	45,084	905	2.0%
Estate	8,549	10,100	1,551	18.1%
Real Estate Excise	34,100	42,424	8,324	24.4%
Timber (state share)	0	0	0	NA
Other	10,834	11,211	376	3.5%
Department of Licensing (2)	2,955	2,741	(214)	-7.2%
Lottery (2)	5,483	6,664	1,181	21.5%
Total General Fund-State***	\$899,459	\$895,001	(\$4,458)	-0.5%
Cumulative Variance Since the March Forecast (March 11 - May 10, 2001)3				
Department of Revenue-Total	\$1,495,105	1,478,307	(16,798)	-1.1%
Revenue Act** (3)	1,317,928	1,291,653	(26,275)	-2.0%
Non-Revenue Act(4)	177,177	186,654	9,477	5.3%
Liquor Sales/Liter	12,876	13,482	606	4.7%
Cigarette	10,856	10,938	82	0.8%
Property (State School Levy)	57,559	58,410	852	1.5%
Estate	24,908	27,834	2,926	11.7%
Real Estate Excise	58,217	64,878	6,661	11.4%
Timber (state share)	0	0	0	NA
Other	12,761	11,112	(1,649)	-12.9%
Department of Licensing (4)	3,496	3,359	(137)	-3.9%
Lottery (4)	10,967	13,657	2,690	24.5%
Total General Fund-State***	\$1,509,567	\$1,495,322	(\$14,245)	-0.9%

1 Collections April 11 - May 10, 2001. Collections primarily reflect March 2001 activity of monthly taxpayers and Jan.-March activity of quarterly filers.

2 April 1-30, 2001 collections.

3 Cumulative collections, estimates and variance since the March 2001 forecast; (March 11- May 10, 2001) and revisions to history.

4 Cumulative collections, estimates and variance since the March 2001 forecast; (March and April 2001) and revisions to history.)

* Based on the March 2001 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 97% of total General Fund-State.

TABLE 2
April 10, 2001 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
March 11 - April 10, 2001				
Department of Revenue-Total	\$592,711	\$592,711	\$0	0.0%
Revenue Act (1)	527,701	527,701	(0)	-0.0%
Non-Revenue Act(2)	65,010	65,010	0	0.0%
Liquor Sales/Liter	6,177	6,177	(0)	-0.0%
Cigarette	5,419	5,419	(0)	-0.0%
Property (State School Levy)	13,326	13,326	0	0.0%
Estate	17,734	17,734	(0)	-0.0%
Real Estate Excise	22,454	22,454	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	(99)	(99)	0	-0.2%
Department of Licensing (2)	648	648	(0)	-0.0%
Lottery (2)	6,992	6,992	0	0.0%
Total General Fund-State***	\$600,351	\$600,351	\$0	0.0%

Cumulative Receipts: March 11 - April, 2001 & Revisions to History

Department of Revenue-Total	592,711	\$592,710	(\$1)	-0.0%
Revenue Act (3)	527,701	527,701	(0)	-0.0%
Non-Revenue Act(4)	65,010	65,009	(1)	-0.0%
Liquor Sales/Liter	6,177	6,177	(0)	-0.0%
Cigarette	5,419	5,419	(0)	-0.0%
Property (State School Levy)	13,326	13,326	0	0.0%
Estate	17,734	17,734	(0)	-0.0%
Real Estate Excise	22,454	22,454	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	(99)	(100)	(1)	1.1%
Department of Licensing (4)	618	618	(0)	-0.0%
Lottery (4)	6,992	6,992	0	0.0%
Total General Fund-State***	600,321	\$600,320	(\$1)	-0.0%

P-Preliminary. Reported in the April 10, 2001 collection report.

R Revised data.

1 Collections March 11 - April 10, 2001. Collections primarily reflect February 2001 business activity of monthly taxpayers.

2 March 1-31, 2001 collections.

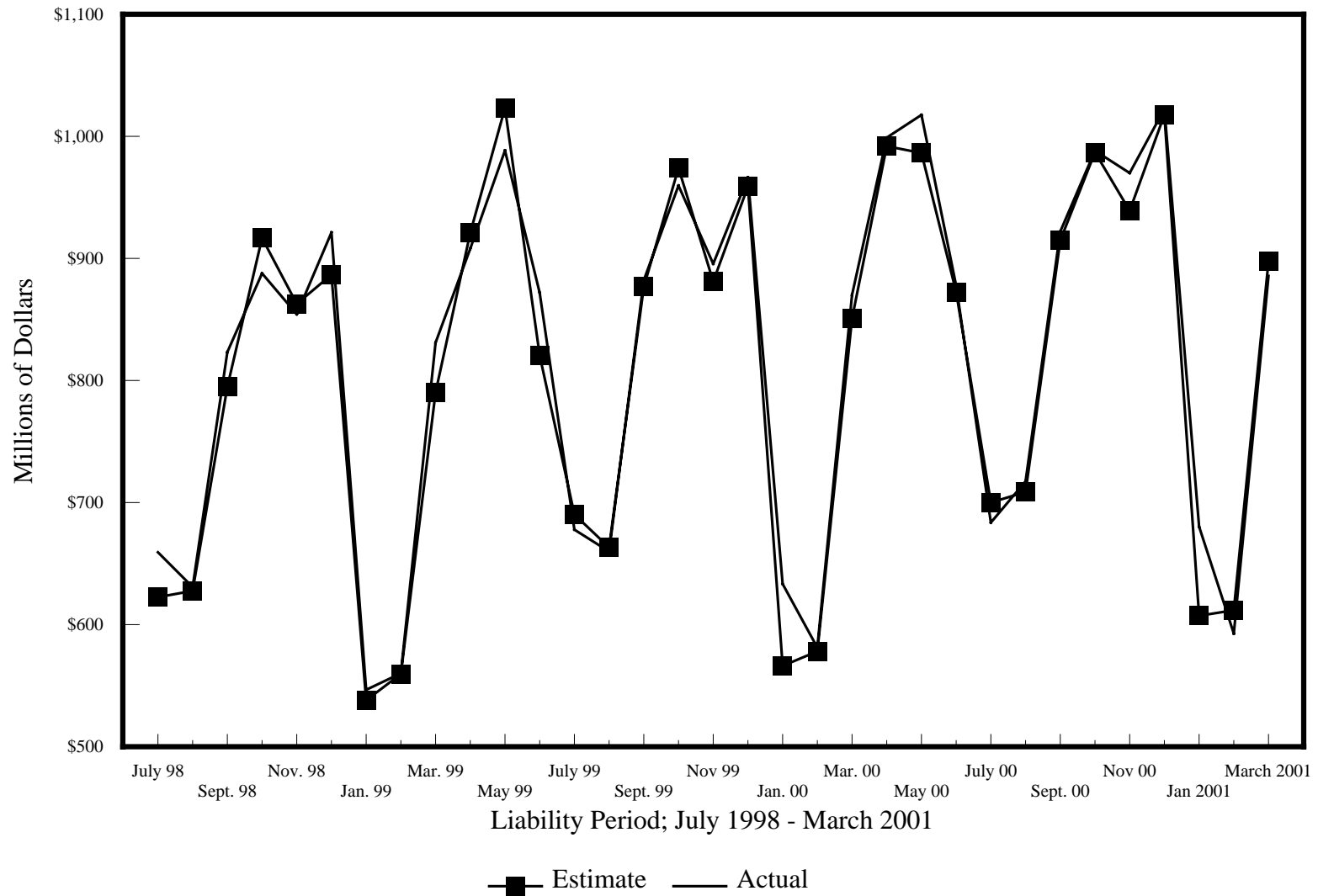
3 Cumulative variance for since the March 2001 forecast: March 11 - April 10, 2001 & revisions to history.

4 Cumulative variance: since the March 2001 forecast (March 2001) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

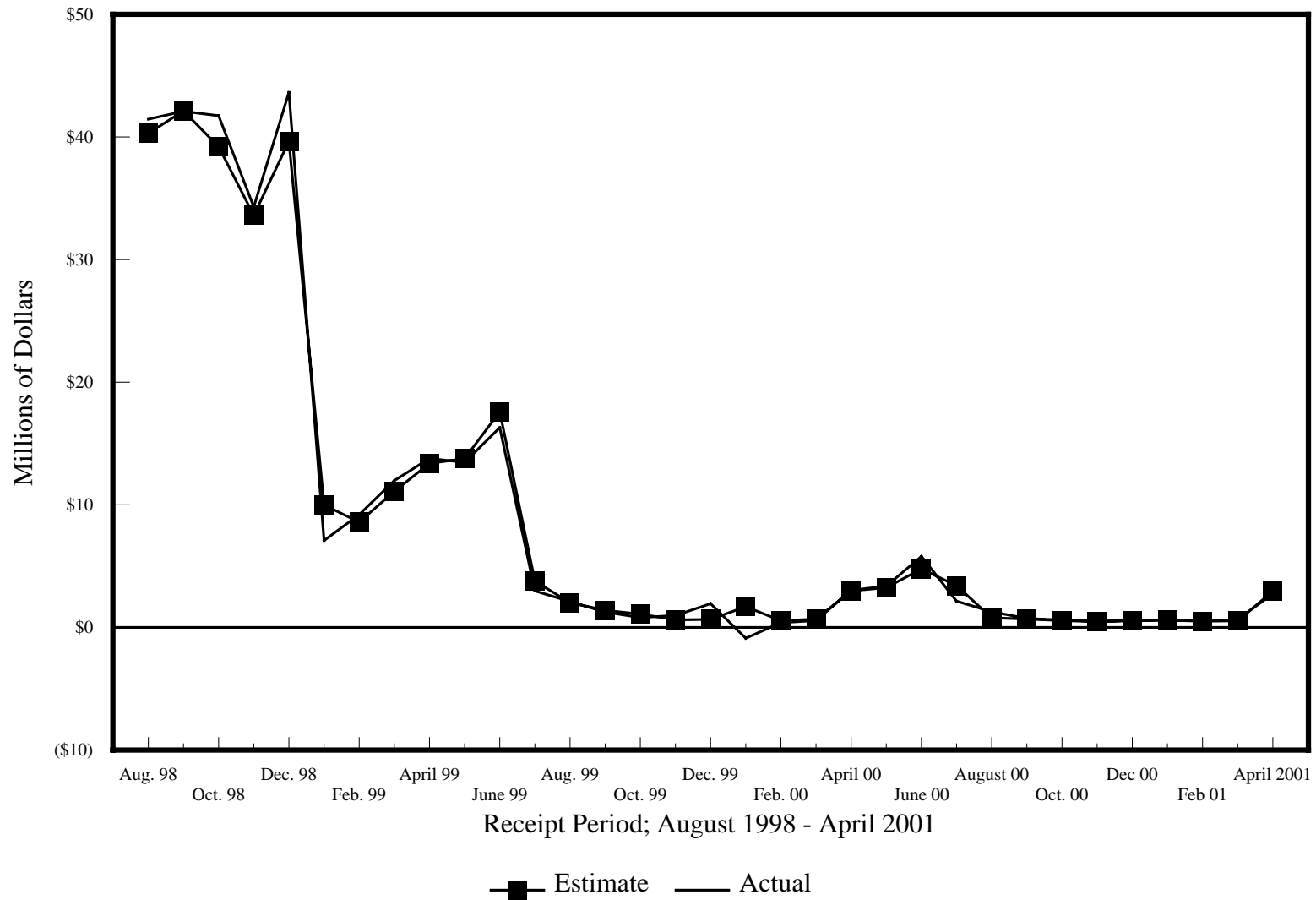
Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to March 2001



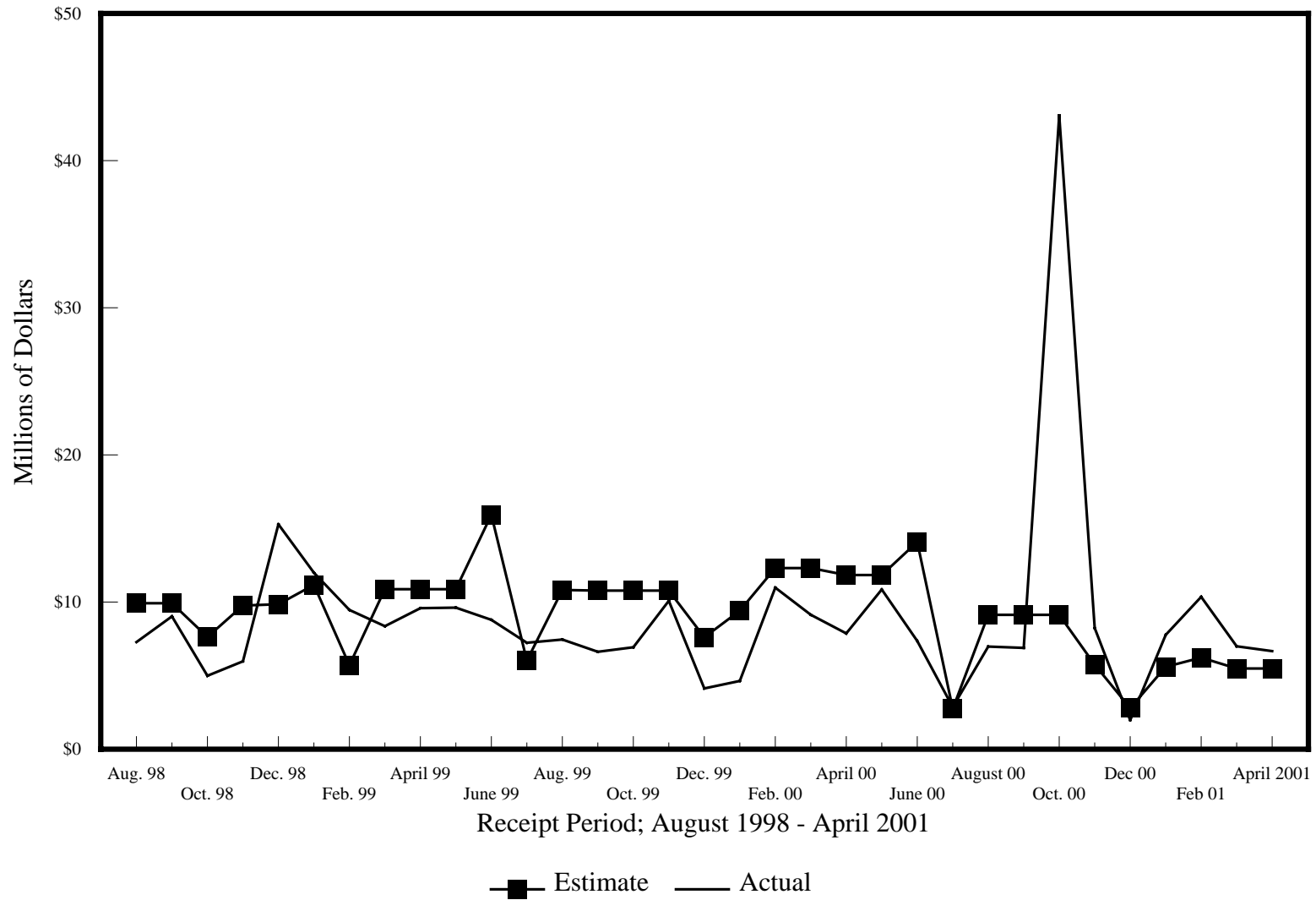
Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to April 2001



Lottery Transfers to the General Fund, Actual vs. Estimate

August 98 to April 2001



Revenue Act Net Collections

Year-over-Year Percent Change

